Store in a Store

The Philosophy

RJ Reynolds Tobacco Company

51855 9127

Source: https://www.industrydocuments.ucsf.edu/docs/jghn0000

Store in a Store Philosophy

■ Background

- ❑ **Cigarette and Tobacco Stores continue to experience a significant growth trend**
  - **1993** - 1% of retail sales were in Cigarette/Tobacco Stores
  - **1996** - 13% of retail sales are in Cigarette/Tobacco Stores
  - **2000** - projection - 25-30% of Sales in Cigarette/Tobacco Stores
- ❑ Proposed FDA regulations could have a profound affect on how cigarettes are sold in the years ahead.
- ❑ Manufacturers - regardless of outcome of FDA litigation are committed to restricting access to the product by minors.

Source: https://www.industrydocuments.ucsf.edu/docs/jghn0000

Store in a Store Philosophy

■ Background (continued)

- ❑ Retailers committed to selling cigarettes for the long term will have to proactively address these issues for two primary reasons:
  - ❶ To defend their existing business (both cigarette & related categories);
  - ❷ To set up dynamics that will allow them to grow both cigarette and related categories in the future.
- ❑ Smokers as a group spend more than non-smokers on each shopping visit on related products
  - In supermarkets they spend an average of $3.59 (+13%) additional on related products.*
  - In convenience stores they spend an average of $2.67 on related products.*

*RJR Business Information - Market Basket Study

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Store in a Store Philosophy

■ Background (continued)

❑ Moving forward, Retailers will fall into three buckets:

❶ **Business as Usual**

- In denial about the dynamics that are changing the marketplace.
- Indifferent to the category

❷ **Allergic Reaction**

- Lack information to make an informed decision about the category.
- Knee jerk reaction causes a move to all non self service.

❸ **Movers and Shakers**

- Trend Setters, committed to the category.
- Will make an informed decision and proactively do the right things to capitalize on the marketplace changes at the expense of their competitors.

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Store in a Store Philosophy

- **Store in a Store**
  - **What is it?**
    - A dedicated or departmentalized area contained within the existing square footage of a store.
    - Merchandises, promotes and sells cigarettesan/or other related categories.
    - Has the ability to restrict access/visibility from minors.
    - Contains the same successful elements of a stand alone Cigarette and Tobacco store.

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Store in a Store Philosophy

- **Key Strategies for Success**
  1. *Store Layout and Design Strategy*
  2. *Merchandising Strategy*
  3. *Promotion and Pricing Strategy*
  4. *Marketing/Advertising Strategy*

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Store in a Store Philosophy

■ Key Strategies for Success

1. ***Store Layout and Design***

- Store in a store should complement the existing store design.
- Carefully consider the traffic flow, inside and outside visibility and more permanently installed hardware such as coolers, ovens, etc. before selecting the area.
- Dedicate as much space as possible (minimum 300 - 400 sq. ft. is preferred for adequate merchandising.)
- The ability to restrict access from minors is critical.
- Design control areas at entry and exit points both inside and outside the area.
- Consider an additional entrance/exit from outside the store.

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Store in a Store Philosophy

■ Key Strategies for Success (continued)

1. ***Store Layout and Design*** (continued)
   - Ensure there is a provision for an additional sales counter and cashier.
   - Create a plan to cover the additional overhead costs. May require inclusion of related categories.
   - If you do not elect to wall off the department at this time, the ability to easily wall it off in the future should be part of your plan.

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Store in a Store Philosophy

■ Key Strategies for Success (continued)

2. ***Merchandising Strategy***

- Successful Cigarette Stores embrace and utilize an industry approach as it relates to how their stores are merchandised.
- The Industry approach maximizes the promotional appeal to the majority of consumers- a key component to successful Cigarette stores.
- Focus on a clean, uncluttered smoker friendly environment.

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Store in a Store Philosophy

■ Key Strategies for Success (continued)

2. ***Merchandising Strategy*** (continued)

- Key on impactful product presentation that is highly visible to the consumer.
- Utilize permanent fixturing/advertising that create a high impact. Eliminate temporary advertising clutter from smaller manufacturers.
- The physical make-up (fixturing) of a store in a store concept can be done many different ways. The key component to the store in a store concept is the **departmentalization** of the product in such a way so that minors are restricted from accessing/viewing the product.

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Store in a Store Philosophy

■ Key Strategies for Success (continued)

2. ***Merchandising Strategy*** (continued)

❑ Fixturing Options

- **Gondola Shelving** - Gondola shelving is the most self-reliant way to merchandise the department.
  - ❑ Provides a consistent look to the store in a store similar to the merchandising of other products in the main store.
  - ❑ Usually readily available and minimizes fixture complications with the cigarette manufacturers.
  - ❑ Gondola shelving can be advantageous due to its ability to merchandise other products on the back side or slotwall.

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Store in a Store Philosophy

■ Key Strategies for Success (continued)

2. ***Merchandising Strategy*** (continued)

- **Warehouse Racking or Warehouse Metal Shelving**
  - ❑ Does an excellent job of visually impressing the consumer that the prices are rock bottom. Similar to a Warehouse Club look.
  - ❑ Minimizes fixture complications from the Manufacturers.

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Store in a Store Philosophy

■ Key Strategies for Success (continued)

2. ***Merchandising Strategy*** (continued)

- **Cigarette Manufacturers Fixtures**
  - ❑ Each Manufacturer would supply their own fixturing to house their products.
  - ❑ This option can create difficulties and time delays due to cost share agreements and manufacturers' requirements on use.

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Store in a Store Philosophy

■ Key Strategies for Success (continued)

2. ***Merchandising Strategy*** (continued)

- **Combination Fixturing**
  - ❑ Approach utilizes store gondola and high impact "waterfall" displays to feature priority brands such as Winston and Doral.
  - ❑ Provides the efficiencies and consistencies of store gondola with the visibility impact of brand specific displays that offer smoker friendly access to product.
- **Retail Display Allowances and Resources available**
  - ❑ Each manufacturer provides varying levels of RDA's and Promotional support based on a number of factors.
  - ❑ The most advantageous way to set up the store in a store is to utilize price tier zoning.

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Store in a Store Philosophy

■ Key Strategies for Success (continued)

2. ***Merchandising Strategy*** (continued)

- ❑ **Full Price brands and promotions**
  - – Reside in **best** position in store.
  - – Amount of space equal to SOM for full price in local marketplace.
- ❑ **Branded Savings brands and promotions**
  - – Reside in **second** best position in store.
  - – Amount of space equal to SOM for Branded Savings in local marketplace.
- ❑ **Black and White/Private Label brands**
  - – Reside in **least** desireable position in store.
  - – Amount of space equal to SOM for Black/White/PL in local marketplace.

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Store in a Store Philosophy

■ Key Strategies for Success (continued)

2. ***Merchandising Strategy*** (continued)

- **Related Categories**
  - ❑ Amount of space required in the department will depend on whether or not additional age restricted products will be included in the restricted area.
  - ❑ Cross merchandising of related categories has both positives and negatives.
- **Positives**
  - ❑ Deals with age restricted products (cigarettes, beer, magazines, lottery's etc.) consistently and effectively.
  - ❑ Potentially increase foot traffic and impulse buying.
  - ❑ Could offset additional overhead costs.

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Store in a Store Philosophy

■ Key Strategies for Success (continued)

2. ***Merchandising Strategy*** (continued)

- **Negatives**
  - ❑ Risks losing identity as a "cigarette store" to effectively compete with cigarette and tobacco store growth.
  - ❑ Space requirements can be significant depending on the number of categories and their sales volume in the store.

Source: https://www.industrydocuments.ucsf.edu/docs/jqhn0000

Store in a Store Philosophy

■ Key Strategies for Success (continued)

3. ***Promotion and Pricing Strategy***

- ❑ The key to Cigarette and Tobacco store success is industry promotion and extremely competitive pricing.
- ❑ Embrace an industry merchandising approach and take advantage of all manufacturer's promotions.
- ❑ Conduct price surveys on existing Cigarette and Tobacco stores in the marketplace and ensure your price is competitive with theirs.
- ❑ Promote products from permanent vehicles, keep the atmosphere clean and uncluttered or you risk being associated with the flea market approach which is not where the current merchandising trend is.

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Store in a Store Philosophy

■ Key Strategies for Success (continued)

4. *Marketing/Advertising Strategy*

- ❑ For store in a store to be successful you must be willing to take a higher profile in the marketing and sale of cigarettes.
- ❑ Smokers in the marketplace must view you as having a competitive price vs. discount shops and cigarette & tobacco stores and the same level of promotion, convenience and smoker friendliness as these outlets.
- ❑ Non-smokers must view you as responsible corporate citizens concerned about legitimate youth access issues.
- ❑ Take a positive and proactive position on the higher profile cigarette department that addresses both smokers and non-smokers. Sell Tobacco products responsibly and back-up your words with action.

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Store in a Store Philosophy

■ Key Strategies for Success (continued)

4. ***Marketing/Advertising Strategy*** (continued)

- ❑ Consider frequent shopper cards incorporating current programs and proactively announcing it.
- ❑ Smokers are usually extremely loyal to their brands and tend to associate with other smokers. Capitalize on word-of-mouth marketing by rewarding customers who refer others to your store.

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Store in a Store Philosophy

■ Key Strategies for Success (continued)

4. ***Marketing /Advertising Strategy***(continued)

- **"Smoker Friendly Atmoshere"**
  - ❑ Smokers need to feel welcome and feel like their business is truly appreciated. This is quite contrary to how they are currently treated in the media and in traditional stores.
  - ❑ Cashiers should get to know their customer brands and possibly their names.
  - ❑ Manager/cashier should be knowledgeable and helpful as it relates to cigarettes and the tobacco industry.
  - ❑ Inform customers about new brands and upcoming promotions.

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Store in a Store Philosophy

Summary

- Commit long term to the Cigarette category to defend overall business.
- Proactively market the category to capitalize on marketplace trends and take business from complacent competitors.
- Utilize an aggressive, fully integrated and well thought out Store in a Store program to ensure a strong and vibrant business in the future.

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Store in a Store Philosophy

Next Steps

- Analyze current marketplace and access risk.
- Create contingency plans for FDA/Local restrictions.
- Select geography and Store(s) for test concepts
  - » Store in a Store concept
  - » Stand alone Cigarette and Tobacco store
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